

Canadian Pacific Limited

105th
Annual Meeting of Shareholders

Report of Proceedings
May 7, 1986

Rail Transportation

Non-Rail Transportation

Oil and Gas

Mines and Minerals


Forest Products

Steel and Industrial Products

Real Estate

Other Businesses

Financial and Miscellaneous



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Report of Proceedings of the One Hundred and Fifth Annual Meeting of Shareholders held at Vancouver, B.C., on Wednesday, May 7, 1986.

The meeting assembled in accordance with the convening notice at 9:30 a.m., Vancouver time, at the Hotel Vancouver, Vancouver, B.C.

In accordance with the by-laws of the Corporation, the Chairman of the Corporation, Mr. F.S. Burbidge, presided and the Secretary of the Corporation acted as secretary of the meeting.

There were 180 shareholders and proxyholders present at the meeting. A total of 197,756,066 votes were represented consisting of 197,678,167 votes in respect of which proxies had been deposited with the Corporation in accordance with the proxy requirements set forth in the notice calling the meeting and 77,899 votes represented by shareholders who attended the meeting in person.

The Chairman introduced members of the Board of Directors and referred to the retirement from the Board at this meeting of Messrs. C.A. Fielding, W. Earle McLaughlin, O.C., J.H. Moore and The Rt. Hon. Lord Polwarth, T.D., D.L. He and the shareholders acknowledged the significant contribution of the aforementioned directors to the affairs of the Corporation. He then introduced Messrs. Michel Bélanger, M. James Fielding and Allan R. Taylor, nominees to fill the vacancies on the Board, as well as representatives of the Corporation's auditors.

With the approval of the meeting, the Chairman named Messrs. A.J. Gareau and W.J. Johnston, both employees of the Montreal Trust Company, to act as Scrutineers.

The Chairman informed the meeting that the Secretary had deposited with him a statutory declaration establishing the publication of newspaper advertisements and the giving of written notice as required by Section 128 of the Canada Business Corporations Act (CBCA) and in addition the sending of notice of the time and place of the meeting to each shareholder entitled to vote thereat and to each director and to the auditors of the Corporation as required by Section 129 of the CBCA. The Chairman then declared the meeting to be regularly called and properly constituted for the transaction of business.

Mr. John Norman Hyland moved and Mr. Edward D.H. Wilkinson, Q.C., seconded the following resolution concerning the confirmation of minutes of the Special Meeting of Shareholders held on December 5, 1985:

RESOLVED, that reading of the minutes of the Special Meeting of Shareholders, held on December 5, 1985, be dispensed with and that said minutes be taken as read and confirmed.

The question having been put to a vote, the Chairman declared the motion carried.

The President and Chief Executive Officer then addressed the meeting as follows:

The President:

Four years ago, when Canadian Pacific became the first Canadian company to commit itself to participating in Expo 86, we had a feeling we were going to be part of a truly marvelous celebration.

Everything – the setting, the timing and the theme – seemed perfect: designed for success.

For many Canadians, Vancouver is undoubtedly the most beautiful city in Canada. By the end of the exposition, her national reputation for the grace and hospitality which enhance her stunning geography will have spread world-wide.

The timing couldn't be better either. About a month ago, of course, Vancouverites held their first big celebration in a year-long centennial birthday party. This July, there will be more festivities to mark the 100th anniversary of the arrival of the first passenger train from the East at Port Moody.

All in all, it should be a glittering summer. And from what I've seen so far, Expo will be the crowning glory.

After the remarkable success of Expo 67 in Montreal, visitors and fair officials from across the globe went home proclaiming that Canadians seemed to have a special flair for world's fairs. Nearly 20 years later, they've been proven right again.

And what could be more appropriate for a Vancouver Expo than the combined themes of transportation and communication?

Since 1887, when the transcontinental rail terminus was moved here from Port Moody, Vancouver has been Canada's gateway to the Orient and the South Pacific.

Just three weeks after the first transcontinental train pulled into Vancouver, the CPR-chartered steamer Abyssinia, sailing from Hong Kong and Yokohama, reached the Strait of Georgia.

She carried about 100 passengers, three bags of letters, eleven packages of newspapers and 2,830 tons of cargo including silk and a large consignment of tea.

A small trial shipment of the tea was rushed across the continent to New York by train, transferred to ship and unloaded in London only 29 days after it left Japan.

The world was astonished. A new trade route – the long-sought-after alternative to the Suez Canal – had opened for world commerce and Vancouver was on the map.

In the early days, the trans-Pacific steamers like the *Abyssinia*, had only limited accommodation for passengers. But that soon changed.

Even by 1891, when the first of Canadian Pacific's magnificent Empress ocean liners was commissioned, Vancouver had become an important port of call for passengers travelling to and from North America and the lands of the Pacific.

Later on, the advent of the airplane added a new dimension to Vancouver's transportation role – first as a link to the settlements in the hinterlands of British Columbia and the north and now across Canada and the world.

But this region's place in Canadian history is even more pivotal than that.

If British Columbia hadn't insisted on a rail line to the East as part of its Confederation bargain, there would have been no real reason in the 1880s to push the railway much beyond the Ontario border.

There doesn't seem to be much doubt that if the railway hadn't started to move westward when it did, I might be speaking to you today as the chief executive of the Canadian-American Pacific.

I'm not sure what symbols would surround us on this site under those circumstances, except that the national flag would show three colours, not two. And I don't think anyone would be posing for pictures beside the world's largest hockey stick.

But events didn't turn out that way.

The completion of the railway meant that British Columbians were finally able to reach out to the older provinces in the East and a young Canada started building in earnest. And with it, an even younger Canadian Pacific.

In a sense, British Columbia and Canadian Pacific have shared one another's growth from their beginnings.

The railway, the airline, Marathon Realty, the pulp and paper group, Cominco as well as other entities in the modern Canadian Pacific group of companies have been involved here for a long time.

That's why we didn't consider any other city for our 105th annual meeting.

This company, though, has changed enormously since that first passenger train pulled into Port Moody. Only a minute late, I might add, after a 2,900-mile journey.

Rail passenger service was once the pride of Canadian Pacific. We carried hundreds of thousands of people by train in our time. And many, many said we did it very well.

The last of our ocean passenger liner fleet has been gone for almost 15 years.

But Canadian Pacific is still in the passenger business. And today, we serve our customers with a new fleet of Empresses – the aircraft of Canadian Pacific Air Lines.

And although to some travellers, the romance of flight is at least as exhilarating as the romance of a sea voyage, no one would deny it is different.

Canadian Pacific is still in the business of moving freight, too. But what we move and the way we move it these days is just as dissimilar as a jetliner is to an ocean liner.

The silk and tea trains of long ago have given way to solid and unit trains hauling potash, sulphur and coal. Much general cargo now moves in containers or truck trailers on flatcars instead of in boxcars.

And computers now track train movements through every mile from origin to destination.

In the early days, our telegraph system, which first used dots and dashes to keep railroaders in touch, soon evolved into a commercial communication system. We've stayed in that line as well, although the messages of the 1980s move by fibre optics and space satellites.

Ocean cargo continues to be carried on Canadian Pacific vessels. But there too, newer developments like the container ship have become increasingly significant.

So even in our original businesses, nothing is the same as it used to be. That's hardly surprising after more than a century of evolution in a commercial, social and political world that never stands still.

These days, a lot of us seem to have convinced ourselves that the rate of this natural evolution has accelerated to a mind-spinning pace, perhaps beyond our abilities to understand it, let alone keep abreast of it.

Certainly, when you look at how the traditional markets for some of the products this company produces have turned upside-down in only a few years, that may not seem to be an unreasonable conclusion.

Still, I think the secret for surviving change, no matter how fast-moving, is much the same as it's always been.

To me, it comes down to knowing your strengths, knowing your weaknesses, understanding the world around you and being prepared to seize new opportunities without too much looking back.

A great deal of uncertainty and unpredictability goes with being alive – even or maybe especially in the corporate sense. The trick is to manage it; not let it manage you.

At Canadian Pacific, we've been going by that philosophy for some time.

In 1984, as you remember, the company was continued under the Canada Business Corporations Act. With that single action, many of the complex and antiquated provisions of our corporate charter were eliminated. That gave us the same freedom to deal with capital markets, for example, that most Canadian companies have had for decades.

Last fall, of course, Canadian Pacific Limited merged with Canadian Pacific Enterprises. That corporate structure, itself an important step forward when it was taken almost 20 years ago, had served its purpose.

Now with a new, strong and cohesive organization, we will be able to do a much better job of co-ordinating and utilizing the financial resources and assets of the total Canadian Pacific group in the service of each member.

These two developments are fundamental ones which will have cumulative and positive long-term effects for this company.

But no company can continue to be successful if its management concentrates on the future alone in hopes that the present will look after itself. As we all know, it won't.

For Canadian Pacific, the immediate challenge is coping with the uneven nature of the Western world's economic recovery. Although growth has been substantial since the 1982–83 recession, not all sectors have benefited equally.

In the agriculture, mining and forest products industries, over-capacity and weak demand have kept prices down.

The problems facing the North American steel industry are certainly no secret. And no one needs to be told how much companies in the energy field have been hurt by the dramatic fall in world oil prices.

Since Canadian Pacific is heavily involved in moving all these commodities and producing most of them, any continued softness in these markets hits us with a double-whammy.

For example, our oil and gas sector, which for years had been a major contributor to the company's over-all income, has already been badly affected. But lower energy prices are just now beginning to translate into lower fuel prices for our transportation companies.

The first quarter results we released yesterday were disappointing, to say the least.

However, I can assure you the companies in the Canadian Pacific group are not just sitting still, waiting for further improvements in the world economy to work miracles. We don't intend to let change manage us.

In mid-April, Algoma Steel announced a major restructuring program which will shrink its productive capacity, but result in a more efficient, lower-cost mill able to manufacture 100 per cent, continuous cast steel.

This restructuring will mean some write-downs, likely in the second quarter, although the amount won't be determined until further studies are completed. In addition, the carrying value of all the company's assets, is constantly under review.

Cominco has made important productivity improvements, sold off non-core assets to generate cash and concluded creative joint-venture arrangements in their copper and fertilizer businesses.

In the forest products sector, a lot of effort and money has gone into modernizing facilities and lowering production costs. As a result, improving pulp and newsprint prices will lead to increased profitability for both Great Lakes Forest Products and CIP.

Despite the oil-price collapse, PanCanadian Petroleum is still the premier oil and gas company in Canada. Almost debt-free, with an excellent reserve base, PanCanadian can ride out the current energy turmoil and expand as opportunities arise.

Marathon Realty has expanded its thrust into the United States with the acquisition of a shopping centre company in the South West. We think this additional U.S. initiative will add to Marathon's already impressive record.

In the transportation sector, CP Rail, the Soo Line, the airline, trucking and container shipping companies are improving productivity and concentrating on strategies that will allow them to turn deregulation into a competitive advantage.

We are gradually phasing out of dry bulk and tanker shipping, after some years of disappointing results, amid what seems like an eternity of overcapacity in world markets.

We have re-organized CP Rail into a separate management unit for the first time. We think this will enable the railway to be both much more responsive and much more aggressive in dealing with the coming changes in the domestic and international transportation environment.

Canadian Pacific Air Lines has done more than adopt an old name and new colours. With the acquisition of Eastern Provincial Airlines and the majority control of Nordair, among other developments, we are positioning the airline as a truly national domestic carrier and a stronger-than-ever force on the international scene.

Its division, CP Hotels, has also embarked on a new image. Now concentrating on what the industry calls the "up-scale" market, CP Hotels has sold several properties which don't fit that profile and embarked on a \$175-million expansion and refurbishing program.

As part of that plan, CP Hotels has added properties in Charlottetown and Kelowna and will operate the deluxe Kananaskis complex near the site of the alpine ski events for the 1988 Winter Olympics.

The actions I've just described – capital improvements and expansion through acquisition and internal growth – are very expensive in the short term.

But I'm convinced they will pay off before long in the kinds of sustained profit levels our shareholders expect.

In the longer term, we have other specific goals.

The recent mercurial nature of commodity markets has taught us, to no one's surprise, that where we can, we have to become less cyclical.

But we can't do that overnight.

In some businesses, we intend to put more emphasis on markets outside Canada. Not only because the possibilities are good in themselves, but because a broader geographic range of interests will strengthen our Canadian base.

The evolution, in most cases, will be gradual. The goals, though, are concrete – increased returns to shareholders and more secure and challenging jobs for employees.

Both groups will be the beneficiaries of the wisdom and experience of one of the major architects of the philosophy I mentioned a moment ago – our chairman Fred Burbidge.

When Fred told shareholders at last year's meeting in Calgary he intended to retire at this time, it didn't seem like such bad news because the parting was still 12 months away.

Today, we have to face it.

In his 39 years with Canadian Pacific, Fred has been part of many of the great modern adventures this company has undertaken. As he rose through the company from a junior lawyer to chairman and chief executive officer, he naturally got closer and closer to the centre of the action.

When I called him an architect, I didn't just pick out the cliché most appropriate for the occasion. Fred's qualities as both architect and builder have been tapped over and over again – with lasting results.

A while before some of the rest of us did, for example, Fred saw that we had to bring our corporate structure out of the cobwebs of the late 19th century and into the real world.

Without the manoeuvrability we've gained through Contin-
uance, our future development would be severely handicapped.

He also realized that the way we hired and trained people had to be brought up to date. Over the years, Fred has given a lot of capable young people opportunity, encouragement and the freedom to learn by their own mistakes without fearing for their futures.

He's a team-builder and that part of his legacy will serve Canadian Pacific soundly for many years to come.

But the most valuable inheritance he leaves this company is the example of his own integrity. No one I've ever met in business has higher standards than Fred Burbidge has.

I doubt very much the Crow rate issue would have been settled in my lifetime, if one of the participants in the debate had not had the stature Fred Burbidge earned for himself and his company.

In his career, Fred has negotiated many issues in many arenas for Canadian Pacific. No matter how much others may have disagreed with his point of view, they came to realize very early that they were dealing with a man they could trust.

I find it a little sad that in my first address to shareholders, I have to take on the task of saying good-bye to Fred Burbidge in his role of Chairman.

On the other hand, I'm very pleased that, on behalf of all of us, I have this chance to say thank-you.

The Chairman then stated that the Board of Directors had requested him to inform the meeting that, at the meeting of the directors to be held immediately following the shareholders' meeting, it was their intention to appoint Mr. Robert W. Campbell as Chairman of the Corporation.

On behalf of the directors, the Chairman then placed before the meeting the Report of the Directors, accompanying Consolidated Financial Statements and Report of the Auditors thereon for the year ended December 31, 1985, pursuant to the requirements of Section 149 of the CBCA.

The Chairman then informed the shareholders that there were five matters of business to be voted on at the meeting. He stated that one of the matters related to an amendment to the articles of the Corporation and another to the approval of an agreement of lease with The Toronto, Hamilton and Buffalo Railway Company and that those matters would be voted on by ballot. He informed the meeting that the other three matters related to the election of directors, the appointment of auditors, and the approval of the Key Employee Stock Option Plan, the Senior Executive Long-Term Incentive Plan and the issuance of up to 5,000,000 Ordinary Shares in connection therewith and he declared that if ballots were taken in relation to those matters, the total number of votes attached to shares represented at the meeting by proxy required to be voted against what to his knowledge would be

the decision of the meeting on those matters was less than 5% of all the votes that might be cast on such ballots and that he had therefore decided to conduct the votes by a show of hands unless a shareholder demanded a ballot.

The meeting then proceeded to the election of ten directors. Mr. Latham C. Burns nominated: Lloyd I. Barber, O.C., Ph.D., Robert W. Campbell, C. Merv Leitch, Q.C., The Hon. John L. Nichol, O.C., Paul L. Paré, O.C., Lucien G. Rolland, O.C. and Thomas G. Rust for election as directors of the Corporation for a term of three years; M. James Fielding for election as a director of the Corporation for a term of two years; and Allan R. Taylor and Michel Bélanger for election as directors of the Corporation for a term of one year.

There were no other nominations and on motion of Mr. John Stuart Clyne, Q.C., seconded by Mr. Donald A. Williamson, the following resolution was adopted:

RESOLVED, that nominations be closed.

The question having been put to a vote, the Chairman declared the motion carried.

Mr. Austin G.E. Taylor moved and Mr. Terrance K. Salman seconded the following resolution:

RESOLVED, that Lloyd I. Barber, O.C., Ph.D., Robert W. Campbell, C. Merv Leitch, Q.C., The Hon. John L. Nichol, O.C., Paul L. Paré, O.C., Lucien G. Rolland, O.C. and Thomas G. Rust be and they are hereby elected directors for a term of three years; that M. James Fielding be and he is hereby elected a director for a term of two years; and that Allan R. Taylor and Michel Bélanger be and they are hereby elected directors for a term of one year.

The question having been put to a vote, the Chairman stated that the motion had been carried and he declared accordingly.

The Chairman stated that the next item of business was the appointment of auditors. Mr. J. Brian Aune moved and Mr. R. Douglas Pearson seconded the following resolution:

RESOLVED, that Price Waterhouse be and they are hereby appointed auditors of the Corporation to hold office until the close of the next Annual Meeting of Shareholders.

The question having been put to a vote, the Chairman stated that the motion had been carried and he declared accordingly.

The Chairman stated that the next matter of business concerned the establishment of the Key Employee Stock Option Plan and the Senior Executive Long-Term Incentive Plan and the issuance of up to 5,000,000 Ordinary Shares in connection therewith. He then gave a brief outline of the plans and Mr. Paterson N. Thorsteinsson, Q.C., moved and Mr. Eric L. Schwitzer seconded the following resolution:

RESOLVED, that the establishment of the Key Employee Stock Option Plan and the Senior Executive Long-Term Incentive Plan of the Corporation, and the issuance of up to 5,000,000 Ordinary Shares of the Corporation in connection therewith be and the same are hereby approved.

The question having been put to a vote, the Chairman declared the motion carried.

The Chairman stated that the next item of business was the special resolution to amend the articles of the Corporation to eliminate the right of holders of Preferred Shares to elect three members of the Board of Directors of the Corporation in the event that the Corporation shall have been in default in paying dividends on the Preferred Shares for two years or more. Mr. James B. Pitblado moved and Mr. Donald Large seconded the following special resolution:

RESOLVED, as a special resolution that:

1. The Articles of the Corporation be amended by deleting subparagraph 3.g)ii) of Schedule A thereto and by amending the remainder of paragraph 3.g) of Schedule A to read as follows:

“g) No Voting Rights Except as Specified. Holders of Preferred Shares shall not have any voting rights and shall not be entitled to receive any notice of or attend any meeting of the shareholders of the Corporation except the right to attend and vote at general meetings upon any question directly affecting any of the rights or privileges attached to the Preferred Shares and in that case there shall be 1 vote for each share; but no change adversely affecting the rights or privileges of any series of Preferred Shares shall be made unless sanctioned by at least $\frac{2}{3}$ of the votes cast at a special meeting of the holders of the issued and outstanding Preferred Shares of such series duly called for considering the same.”

2. The proper officers of the Corporation be and they are hereby authorized and directed to sign and deliver for and on behalf of the Corporation articles of amendment and to sign and deliver such other notices and documents and to do such other acts and things as may be considered necessary or desirable to give effect to this special resolution.

A vote on the foregoing special resolution was conducted by ballot in which the holders of the Ordinary and Preference Shares present or represented at the meeting voted together.

With the consent of the meeting, the Chairman then proceeded to the final item of business – the special resolution to approve an agreement of lease to be entered into by The Toronto, Hamilton and Buffalo Railway Company (TH&B) and the Corporation by virtue of which TH&B, a wholly-owned subsidiary of the Corporation, will lease its railway and undertaking to the Corporation. Mr. C.E. Medland moved and Mr. David M. Rodger seconded the following special resolution:

RESOLVED as a special resolution that the agreement of lease, in the form presented to the meeting, to be entered into by The Toronto, Hamilton and Buffalo Railway Company (the “TH&B”) and the Corporation, by virtue of which the TH&B proposes to lease its railway and undertaking to the Corporation, be and the same is hereby approved.

A vote was conducted by ballot in which the holders of the Ordinary and Preference Shares present or represented at the meeting voted together on the special resolution.

The Chairman instructed the Scrutineers to retire, tabulate the ballots and provide the Chair with Scrutineers’ Reports on the two votes.

The Chairman recessed the meeting until receipt of the Scrutineers’ Reports on the votes. At the conclusion of the recess, the Chairman called the meeting to order.

The Chairman read and adopted the Scrutineers’ Report on the vote of the holders of the Ordinary and Preference Shares voting together on the special resolution to amend the articles of the Corporation. He said that 190,490,091 votes had been cast for the resolution and that 2,864,947 votes had been cast against the resolution. He declared the motion carried by more than two-thirds of the votes cast by or on behalf of the shareholders on the resolution. He then read and adopted the Scrutineers’ Report on the vote of the holders of the Ordinary and Preference Shares voting together on the special resolution to amend the articles of the Corporation.

tineers' Report on the vote of the holders of the Ordinary and Preference Shares voting together on the special resolution for the approval of the agreement of lease between The Toronto, Hamilton and Buffalo Railway Company and Canadian Pacific Limited. He said that 192,775,685 votes had been cast for the resolution and that 638,471 votes had been cast against the resolution. He declared the motion carried by more than two-thirds of the votes of the holders of the Ordinary and Preference Shares present or represented at the meeting and voting together on the special resolution. The Chairman directed that the Scrutineers' Reports be annexed to the minutes of the meeting.

The Chairman then informed shareholders that May 7th had been designated by Expo 86 officials as Canadian Pacific Day and that Canadian Pacific was sponsoring the entertainment at the Xerox International Theatre on that date. He invited all shareholders present at the meeting to go to the Expo site to see the show and stated that seats had been reserved for them in the grandstand. He also informed the meeting that a one-day pass to the Expo site and a special invitation to visit the Canadian Pacific Pavilion at Expo 86 would be available for shareholders following the meeting.

There being no further business, Mr. Colin A.C. Dobell moved and Mr. Harold L. Warner seconded the following resolution:

RESOLVED, that this meeting do now terminate.

The resolution having been put to a vote, the Chairman declared the motion carried and the meeting terminated.



Chairman



Secretary

At the meeting of the Board of Directors held after the shareholders' meeting, Mr. Robert W. Campbell was appointed Chairman and Mr. W.W. Stinson was appointed President and Chief Executive Officer.

The following were appointed members of the Executive Committee:

Mr. Robert W. Campbell

Mr. C. Merv Leitch, Q.C.

Mr. Paul L. Paré, O.C.

Mr. Claude Pratte, Q.C.

Mr. C. Douglas Reekie

Mr. W.W. Stinson

Mr. Ray D. Wolfe, C.M.

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